

## Response to Questions on the Retirement System Review

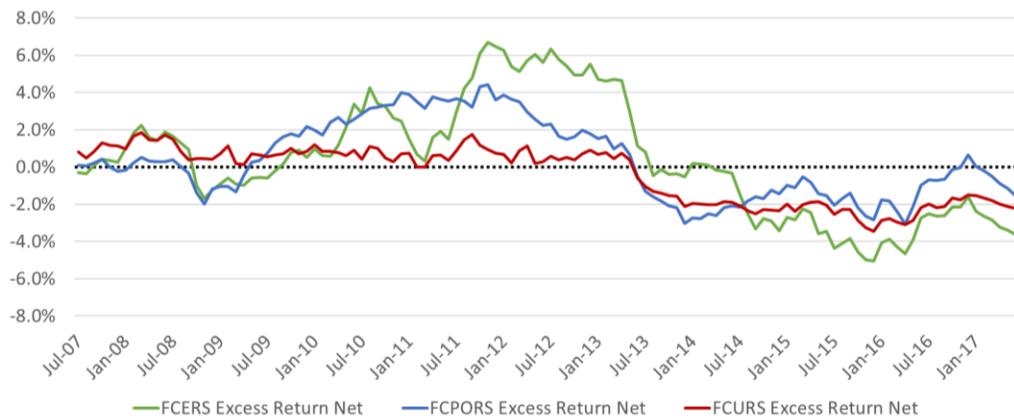
**Request By:** Supervisor Herrity

**Question:** Compare the investment performance of the retirement systems to the 3 largest lifestyle funds.

**Response:** The following table compares returns for the County’s three retirement systems – the Employees’ (ERS), Police Officers (PORS), and Uniformed (URS) Retirement Systems – to three popular lifestyle funds. The funds shown are the Vanguard LifeStrategy Moderate Growth Fund (VSMGX), the Fidelity Balanced Fund (FBALX), and the Schwab Balanced Fund (SWOBX).

As of 6/30/17 (tentative)	ERS	PORS	URS	Vanguard	Fidelity	Schwab	Fund Avg.	S&P 500 Index
<b>10-Yr Total Return Net</b>	5.48%	5.35%	4.75%	4.87%	6.00%	5.29%	5.39%	7.18%
<b>Excess vs Fund Avg.</b>	0.09%	-0.06%	-0.66%	-	-	-	-	-
<b>First 5 Years</b>	5.23%	3.04%	2.23%	1.50%	1.85%	1.80%	1.72%	0.22%
<b>Excess vs Fund Avg.</b>	3.51%	1.32%	0.51%	-	-	-	-	-
<b>Last 5 Years</b>	5.73%	7.71%	7.73%	8.34%	10.33%	8.90%	9.19%	14.63%
<b>Excess vs Fund Avg.</b>	-3.46%	-1.48%	-1.87%	-	-	-	-	-

Over the last ten years, the three systems have seen returns approximately equal to the three popular lifestyle funds. However, within this ten-year period, the three systems outperformed these popular funds in the first five-year period and underperformed in the latter five-year period. This is represented visually in the following chart:



Each of the investment portfolios for Fairfax’s three systems are managed in a risk-balanced and broadly diversified manner. Maintaining this risk-balance and diversification

gives the systems the desired exposure to each segment of the capital markets and provides opportunities to produce the expected returns over various market cycles. Stability of investment returns thus results in less volatility in employer contribution rates.

The three Fairfax retirement systems, in general, have less equity exposure than both traditional “60/40 balanced” funds and their peers, in favor of greater exposure to other diversifying asset classes. In doing so, the systems by design give up a little during equity bull markets and gain a little in reduced risk during more volatile markets. Given the low level of global interest rates, return expectations for all asset classes have been and continue to be lower than their historical averages. However, recent performance in the equity markets has been among the strongest ever, a circumstance that is highly unlikely to continue.